Story Of The

Greenback

By Dr. E. T. Yorke

STORY OF THE GREENBACK

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Published 1988 — Not copy protected

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STORY OF THE GREENBACK

Money is not what you believe; although whatever one may think, the stuff we use works so well that life is miserable without it.

Today's money is not money at all. It is a payments transfer system, known as checking. The presumption is that money is in the bank and is transferred to someone by means of writing a check.

That is where the greenback comes in, for it is presumed to be the money one is transferring. The greenback today is the Federal Reserve Note, the paper we carry in a wallet and call "cash."

Our story deals with the two kinds of money, the check that is not money and the greenback that is money.

The Greenback got it's name in President Lincoln's administration. It is a pejorative term in that it was scorned by banks, which paid only part value for it when presented by clients. History had been unkind to the paper money put out by the Continental Congress during the Revolution against England. To downgrade something, one might say, "not worth a Continental." The Continental Congress had no taxing authority; so, any paper money it issued could not command payment of a commodity without risk.

History texts do not say that the true greenback was as good as gold, until banks persuaded the U.S. Senate to strip it of its legal tender feature. The Treasury authorized issue of $150 million of legal-tender notes on February 28, 1862 for payment of all debts public and private. The vote in Congress was 93 to 59. [Gertrude Coogan, MONEY CREATORS, 1934]

These greenbacks never lost their value against gold coin.

WAR BETWEEN THE STATES

Confronted with the expenses of war to prevent splitting the nation, North against the South, the Lincoln Administration sought loans from New York bankers. Because the bankers set an interest rate of 36%, the Administration took the advice of Secretary of Treasury, Salmon Chase, to issue legal tender greenbacks.

This was the first time that "legal tender" had been considered. It was logical that a government capable of issuing bonds yielding interest could also issue money that did not yield interest.

The New York banks would have established a checking account for the Treasury to draw on for paying soldiers and others for goods and services. For this service Treasury would have to pay 36% interest every year.

The southern states and counties fought the five-year war with scrip without incurring debt.

Bankers stormed the nation's capitol in protest on hearing of the plan to issue greenbacks as legal tender and not yielding interest.

EXCLUSION CLAUSE

For the second authorization of legal tender notes, July 11, 1862, Congress reworded the legal tender feature with "legal tender for all debts, public and private, except duties on imports and interest on the public debt, which from that time forward should be paid in coin."

A third issue of $150 million was authorized by the Act of March 3, 1863.

Gertrude Coogan stated in 1934 that $346 million of the United States Notes were on deposit with the Treasury. The Act of May 31, 1878 required that $322,539,016 remain outstanding. In 1976 the Treasury Cash Room, which paid these notes to the public, was closed, ending the means of placing United States Notes into circulation. [Federal Reserve Board]

Many goods, such as cotton and sugar, formerly coming from the South, had to be imported during the war. An immediate benefit of the exclusion clause to the banks was a ready market for their gold, which importers had to buy, paying $285 for $100 of gold. The added cost forced up prices considerably, intensifying wartime inflation.

In a pamphlet of 1877, Sarah Emery wrote, "The $285 in greenbacks, which the importer had to pay (the banker) for the $100 of gold, he immediately invests in government bonds at face value. His next step is to draw interest on his bonds, for the Act of February

25, 1862, stipulated that his interest should be paid in gold but in advance. Having drawn his gold interest in advance, he is prepared on the morrow to sell it to the next importer. On each exchange the banker clears $185 on $100 of gold." [Seven Financial Conspiracies by Sarah E.V. Emery (1877), 54 pgs., Monetary Science Pub., PO Box 86, Wickliff, OH 44092]

The United States Note, the front shown above and the reverse below, was shorn of its legal tender feature, as stated on the reverse side.

TRANSACTIONS SERVICES

Prior to 1826 in England, the public money system was controlled by the Crown and was in the form of wooden slivers with identifying notches, called tallies. The talley was first issued in 1100 AD by King Henry I. They were no longer issued when King William gave a charter to the private "Bank of England" in 1694.

The public clung to the tally, instead of subscribing to bank money. Parliament was persuaded by the banks to ban its use, ordering all talleys burned in 1826.

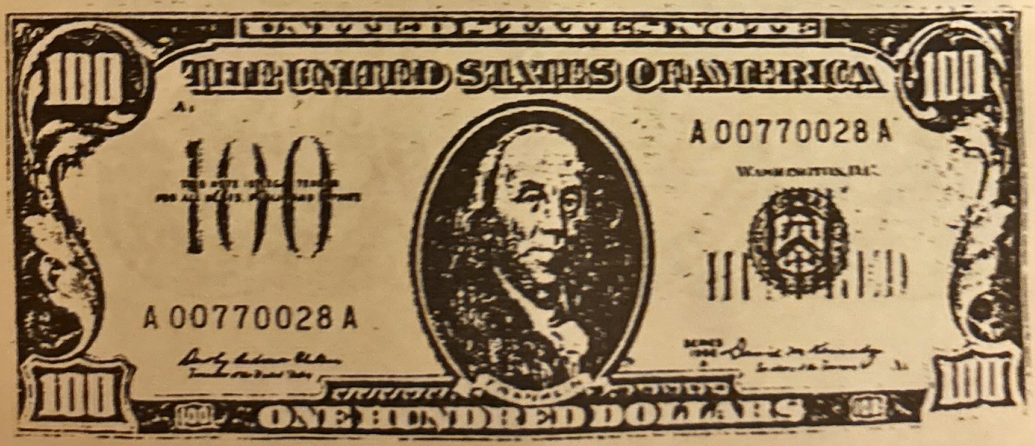
While checks had been used in banking in various forms, such as letters, giving right of the bearer to a specific amount of money held by a goldsmith, banks ultimately arranged a uniform check for customer use.

Merchants deposited coin with goldsmiths, but also used checks. Banks made loans to merchants by giving them the right to draw on the funds by writing checks. Those to whom checks were written could collect the funds from the bank.

The tedious use of tallies had been replaced by the checking system of banks. Trade was improved.

Today, checkable deposits make up 75 percent of the money supply, greenbacks (Federal Reserve Notes), 25 percent. Wide usage of credit cards instead of greenbacks has increased the use of checking to settle accounts.

Below is shown the United States Note, formerly paid to the public by the Treasury Cash Room, until it was closed in 1976, as the notes were indistinguishable from Federal Reserves Notes, except by tedious hand counting, according to the Federal Reserve Board.



NATIONAL BANKING ACT OF 1863

Congress enacted the National Banking Act, February 25, 1863. It was another money-making scheme for banks in addition to the bonanza coming out of the emasculation of Lincoln's greenbacks by the exclusion clause.

The Treasury gave banks greenbacks in exchange for temporary custody of bonds owned by the banks. The amount of greenbacks was 90 percent of the value of the bonds. The banks continued earning interest.

Banks were to lend the bank notes to customers at interest. They collected interest in gold coin on the bonds held by Treasury and the loans of bank notes.

The notes remained in circulation until 1976, when they were discontinued because of problems differentiating them from Federal Reserve Notes. Manual counting was considered too costly to continue. Federal Reserve Notes are counted with high-speed machinery.

ERA OF CONTRACTION--1865-1876

Blaming the inflation that followed the war on circulating greenbacks, the banks prompted legislation to systematically withdraw those notes from circulation. Scarcity of goods was undoubtedly the primary cause of inflation. Almost any amount of money in circulation might be "excessive." The relationship of money supply and scarcity of goods has been debated over and over again.

Published data showed that money supply in 1865 per capita was $47.42:

Currency	$1,651,282,373
Population	34,819,581

In the yearly contraction down to 1877, per capita money supply had fallen to $14.60.

Circulation was down to $606,000,000.

Business failures increased each year, as well.

There were more than 10,000 business failures in the first quarter of 1876 alone.

Almost any amount of money may be in excess in wartime conditions of scarcity, when production is limited to supplying the army and navy.

Banks used the argument in their desire to control the money supply, giving the impression that money supply had to be fine-tuned as in the the 1970s. It remains a false argument.

THE DEVELOPMENT OF CHECKING

When customers deposit their pay checkbook dollars with banks, the banks automatically acquire bookentry reserves, on which they create new deposits of checkbook money as loans.

In earlier days banks loaned out money entrusted to them by townspeople. On recognizing that people were using written messages to others giving them the right to some of the money in the bank, banks developed this innovation by designing the check, which is now the principal form of money transfer.

Banks then developed the idea of making loans to customers based entirely on checking--no money being involved. The presumption existed that real money was available whenever customers demanded it as payment for a check.

The problem with this arrangement was the unwillingness of other banks to accept the checks. It became necessary for banks to organize into a system. One of the salient features of the National Bank Act of 1863 was the appointment of larger money-center banks to settle checking claims between banks.

It was the failure of big banks to honor checks of smaller banks that caused money panics and led to the Federal Reserve Act of 1913. Too many banks had insufficient reserves of real money to back up the checkbook loans they had made.

The Federal Reserve Act designed a system of guaranteeing reserves for banks, as long as they had customer deposits. These deposits became the essential part of banking, as they generated bookentry reserves, on which banks could create new deposits.

Banks could make loans to customers without touching the deposits of customers. They created money as checkbook accounts.

CONCEPT OF REDEEMABILITY

The public rarely saw money when gold and silver, as well as copper, were used as money. City merchants in Europe and some of their

employees held actual money.

During the settlement days of the American colonies, money was scarce. Spanish coins were available, while English coins were prohibited from leaving the country, especially to colonies.

Massachusetts led the way in establishing a paper currency, claimed to be exchangeable for silver. Redeemability has been more a fiction than fact, being employed as a psychological tool. Yet, the public had been conditioned to trust currency that was redeemable in silver.

Silver and gold merchants protected their interests by insisting on the merchantilist law that only a commodity could serve as money. Today, the principal holders of gold are the banks, which buy assayed gold with checkbook dollars, marks, francs or yen.

Bankers never liked silver, because it was more plentiful and difficult to control. When silver was recognized as money, it was limited to small payments only.

The checkbook money game is the most easily controlled. It is purported to be backed by borrowers' collateral to fit the merchantilist concept of money's being a commodity and their own doctrine of redeemability.

Government issue of the dollar, which is defined as a given weight of silver, was found in 1861 as inadequate.

Bargaining talks with New York bankers in 1861 by the Secretary of Treasury also proved that banks would lend checkbook dollars at 36 percent interest.

It was only a matter of arithmetic and logic for President Lincoln to accept the proposal of issuing greenbacks, for the first time not as a debt instrument but legal tender (a new term then) for payment of all debts public and private.

Today's greenback is a legal tender note for all debts, public and private. Banks do not object now, since the money supply comes into circulation as debt—guaranteeing their control over others.

The accumulation of debt for interest is unpayable and accumulates exponentially—the real cause of monetary inflation.

DEPOSIT CREATING BY BANKS

Federal Reserve Banks are the first to put "money" into the banking system. Treasury sends new bonds to the "Fed" to obtain a loan of one billion dollars. The "Fed" puts one billion dollars into Treasury's checking account—a ledger entry. Later, when checks are cancelled at the Federal Reserve Bank, the sum of money is wiped out; yet, for generations Treasury will pay annual interest for the one-time use of checkbook dollars.

Checks sent out to people and corporations by Treasury are deposited in banks, giving each of them new reserves. Banks can then create additional deposits based on their reserves (see page 11).

The "Fed" can control the reserves by buying or selling Treasury securities to the authorized government securities dealers, three of which are recently appointed Japanese securities firms.

These transactions are done by the New York Federal Reserve Bank for the Open Market Committee of the system, a branch of the Federal Reserve Board. They are almost a daily occurrence.

Buying bonds from dealers puts reserves into the banking system, while selling bonds to dealers removes reserves.

All checks written by banks for customer accounts must be loans; hence, the predominant part of our money supply originates as debt and is wiped out of the system when the debts are paid. Federal Reserve Notes, only 25 percent of the supply, are related to debt, but do not require payments of interest to keep them in circulation. The notes are not wiped out in ledger accounting.

The Monetary Aggregates are liquid assets of bank customers, such as certificates of deposit, savings accounts, Treasury bills and travelers checks.

In December 1987 the Monetary Aggregates totaled $4,224 billion.

Checkable deposits totaled only $560 billion.

Greenbacks totaled only $192 billion.

Total debt in the economy, reported by the Federal Reserve Board, was just above $8 trillion at the end of 1987. Interest payments are estimated as

$800 billion; yet only $560 billion is circulating. Monetary aggregates in the coffers of the wealthy are of little use to debtors.

MONEY AS PRIVATE PROPERTY

An examination of goldsmithing, money changing and banking reveals their being private property of a select group—opposed always to the issue of currencies by the King or government.

Checks came into use through the private transfer of currencies held by goldsmiths. They were in the form of written letters. Banks later invented the formal transfer memorandum called checking.

Congress has not written legislation approving or disaproving bank checks, presumably because checks have been a method of transferring funds among banks that is a payments service.

The Treasury permits its name to appear on checks printed by Federal Reserve Banks, which set up deposits for Treasury spending—in exchange for securities, of course, which yield interest.

It had not been thought that the practice of creating deposits by banks since the 17th century was anything but a representation of a commodity, such as silver or gold, lying in bank vaults.

The Federal Reserve Act of 1913, however, was implemented while the system was on a gold standard. Bank checking represented gold-backed dollars; but, in time, as gold coin and gold cetificates were abandoned, the system became mainly one of bookentry mechanics. Banks continued "creating deposits out of thin air," using greenbacks and doposits as the reserves.

As debtors committed property as collateral, the thinking then was that banks were "monetizing collateral." Checkbook money represented material goods and was a commodity. This hid the non-material reserves on which checkbook money was created.

The currencies of nations today are traded on futures commodity exchanges as commodities.

Reform of this system must abolish deposit creation by anyone but the U.S. Treasury, although

checking may remain the practice of banks and non-bank lending institutions.

The Treasury must supervise all checkclearing functions to prevent banks from writing their own checks without funds behind them.

Banks would borrow from Treasury—the reverse of today's system. Banks could offer time deposits to customers yielding interest and avoid borrowing from the Treasury.

Investment bankers have grown powerfully rich in the financial world, using money already in circulation. Many consumer finance companies depend on dollars already in circulation. When the banks tighten reserves and money supply, these non-bank institutions are adversely affected.

MONETIZING DEBTOR PROPERTY

Banks qualify the eligibility of borrowers according to their present debt and value of properties, which could be pledged as collateral in the loan contract.

Collateral must be twice the value of the loan to protect the bank against loss of value during business recession. Thus, when setting up up a newly-created deposit for a customer, the bank monetizes the borrower's property. Banks also make unsecured loans.

THE FEDERAL RESERVE SYSTEM

The Federal Reserve Act of 1913 removed, among other things, the vulnerability of individual banks to runs by depositors and insolvency.

The name of the act comes from the unique system of controlling bookentry type reserves available to banks and their capacity to create deposits (checkbook money).

Experience in 1987 demonstrates the vulnerability of banks to insolvency when too many debtors are unable to pay interest.

Banks must pay from their assets all bad loans; hence, when bad loans exceed bank assets, banks are closed by the regulators. During hard

times, banks become adversaries of their customers in an economic struggle to survive.

The greenback under the Federal Reserve System is only 25 percent of the money supply. It does not cause inflation, because no interest payments are required to keep it in circulation.

Treasury supplies the greenbacks to the Federal Reserve Banks at cost of printing. The Reserve Banks charge banks bookentry reserves for the greenbacks they order.

BOOKENTRY OR LEDGER RESERVES

The presumption in banking is that customers have money on deposit and that the customer draws a check upon the bank, transferring funds to another party. In today's banking, the customer most often has nothing on deposit, except ledger items, which everyone regards as money. Hence, we must speak of money and dollars to be understood.

This is a record at the bank:

ASSETS		LIABILITIES	
Reserves	$1,000	Deposit/A	$1,000
Required Resrvs	150		
Excess Reserves	850		
Loan	850	Deposit/B	850

When customers deposit their pay checks with banks, the banks automatically acquire bookentry reserves, on which they create new deposits of checkbook money as loans.

Deposit/A is the paycheck of a bank customer. The bank automatically acquires reserves from the deposit. The system requires that a percentage of the reserves cannot be used. We have set the required reserves as 15 percent, leaving $850 excess reserves for deposit creation or for the bank's use to buy Treasury securities—anything.

Deposit/B is created by the bank as a loan. The loan is an asset. Deposits are liabilities. Assets and liabilities must balance.

When the Federal Reserve Bank of New York acts

for the Open Market Committee to increase or decrease reserves in the system by selling or buying government securities, respectively, the money supply is being manipulated to adjust for changing financial markets.

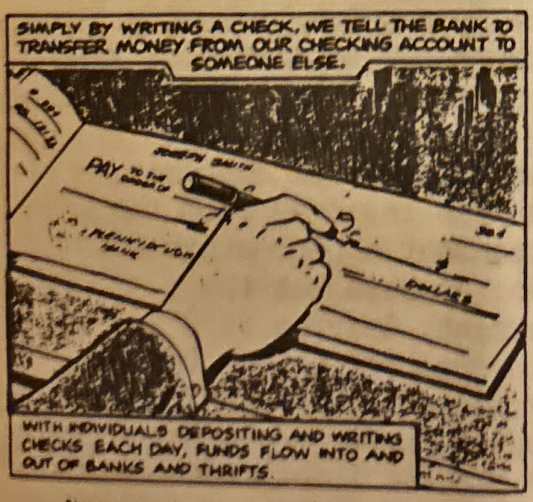
The system is responsible for the business and dollar cycles, which cause havoc throughout the country's economy and world markets.

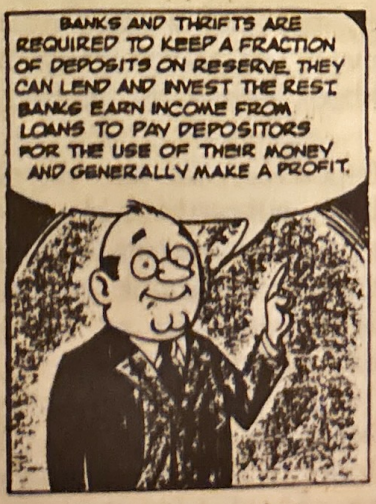
Banks are determined to hang on to their franchise to create and control the money supply. Congress and other institutions are made victims of this unfair control of money by banks.

The very substantial non-bank lending is also vulnerable to collapse when the system money supply is temporarily reduced. In times of recession, a reverse momentum bankrupts many of these lenders with loss of investor money.

The Constitution plainly tells Congress to coin money and regulate tariffs; yet Congress fears the outcome of repealing the Federal Reserve Act and prerogative of banks to create deposits.

The public is so poorly organized and so completely brainwashed by the media that it cannot be depended upon to support the issue by the Treasury of greenbacks with full legal tender and control of checkclearing activities now done by the banks themselves.


SIMPLY BY WRITING A CHECK, WE TELL THE BANK TO TRANSFER MONEY FROM OUR CHECKING ACCOUNT TO SOMEONE ELSE.
PAY TO THE ORDER OF
DOLLARS
WITH INDIVIDUALS DEPOSITING AND WRITING CHECKS EACH DAY, FUNDS FLOW INTO AND OUT OF BANKS AND THRIFTS.


BANKS AND THRIFTS ARE REQUIRED TO KEEP A FRACTION OF DEPOSITS ON RESERVE. THEY CAN LEND AND INVEST THE REST. BANKS EARN INCOME FROM LOANS TO PAY DEPOSITORS FOR THE USE OF THEIR MONEY AND GENERALLY MAKE A PROFIT.

These cartoons come from a publication about banks for popular reading by the Federal Reserve Bank of New York. On reading this pamphlet one recognizes the deceptive use of terms, "cash" and "money," in the cartoon statements.

"FED" HIDES BAD EFFECTS OF BANK MONEY

While the ordinary business cycle recession could be tolerated, the recession of 1980-1981 was so deep and pervasive that revenues of those debtors were insufficient to meet loan payments.

Many of those who took the bait by increasing their indebtedness to banks during the 1970s, felt the dispassionate, unrelenting fury of collapsing prices on world markets and the inevitable bankruptcy that ensues.

The Federal Reserve System did everything it could to hide the bad effects of monetary policy on the economy through the mid-section of the country. Many of the bank and thrift failures were made to appear due to greed, poor management or speculation—always hiding the serious defects of money issued by banks.

Debt—that looked reasonable when prices were strong and business good—became imprudently excessive when those markets fell apart for lack of money. The tight-money policy of banks in the 1980s and the weakness of prices in agriculture and oil made bank lending uneasy and restrictive. A glut of goods resulted, forcing prices down still further.

A colossal mistake of the banking industry had to be born by the world economy, which could have been prevented were this nation not shackled by an inflationary type of money system.

Admittedly, the receipts of the monetary aggregates, above M-1, are very liquid. They are not money in circulation, like the checkable, demand deposits of M-1.

The huge size of M-3 (including M-1 and M-2) gives the impression that plenty of money is in the banking system. It hides the true scarcity of money, which requires unnecessary, expensive, risky borrowing from banks and others.

MONETARY AGGREGATES

Economists often refer to the monetary aggregates as money, which they are not. M-2 is one of the monetary aggregates. It consists of accounts in mutual fund money market accounts,

savings accounts and small certificates of deposit (time deposits).

The investor entrusts checkbook money with others in such accounts, having only a receipt, which is not money, although it may be turned into checkbook money. Money invested with a mutual fund money market account remains in circulation, unless eradicated by a bank on customer payment of fees, interest or principal on a loan.

The fact that M-2 is $2,860 billion and M-1 is only $750 billion tells us that $2,110 billion has disappeared from circulation. True, it may be revived on request of the investor; but, then, the checkbook money has to be recreated. It is out of circulation, unless M-1 shows it to be in circulation.

Banks eradicate money, since their operations are bookentry in type and no real money is involved, except for the greenbacks in their vaults. Greenbacks are the only part of today's money system that are not eradicated by banks.

1923 GERMAN INFLATION

Burdened with war reparations debt and having little resources to pay it, the German government permitted the banks to create deposits as debt. The added burden of debt to support the money system caused speculation and rising prices.

In July 1923 there was no indication that the inflation would explode. By the end of the year the banking system collapsed. This episode in history has been regarded as another example of inflation caused by "fiat" money, despite the fact that debt to carry the bank-money system was responsible.

During War 2, Germany under Hitler, did not borrow from banks, but issued its own currency with the result that the war was fought for seven years without the development of debt.

The United States, after War 2, assumed extraordinary debt to carry out the Marshall Plan, which rebuilt those countries destroyed by the war. Today Germany is in a very favorable position, having minimal inflation and low interest rates. The Deutchmark is increasing in

value against the U. S. dollar, mainly because the U. S. continues to add to its debt burden a monumental external debt by borrowing from banks to purchase cheaper foreign goods to keep a lid on inflation.

The compounding of debt for payment of interest has begun to cause problems the current Federal Reserve System cannot manage. Escalating debt caused the suspicion two decades ago that the money system was out of control.

Interest on the national debt is the fastest growing component of the federal budget. In 1987 the deficit was $148 billion, while the payment for interest on the debt was $195,390 billion.

A REASON FOR WARS AND DEFENSE PROGRAMS

The design of the money system mandates that people, governments and institutions become debtors, while banks need not do so. A corollary is "debtor is servant of the lender." Huge defense programs legitimize heavy borrowing by government, which temporarily puts money into circulation only to be crossed out by banks in their ledgers, leaving an unpayable debt that compounds out of proportion during ensuing generations.

THE DOLLAR CYCLE

The dollar cycle hit bottom in 1979 amidst cries of fear that the banking system would collapse.

Interest rates were raised dramatically to shut off rising prices and the falling dollar (against the German deutchmark and Japanese yen).

As the dollar strengthened into 1985 a flood of cheap imports throttled inflation and drove domestic producers offshore where wage levels were low. Domestic manufacturing, agriculture and oil sectors crumbled amidst thousands of bankruptcies.

When the dollar cycle was brought down again and hit lows late in 1987, the horrendous trade deficit (borrowing from foreign banks) expanded to record levels, instead of declining.

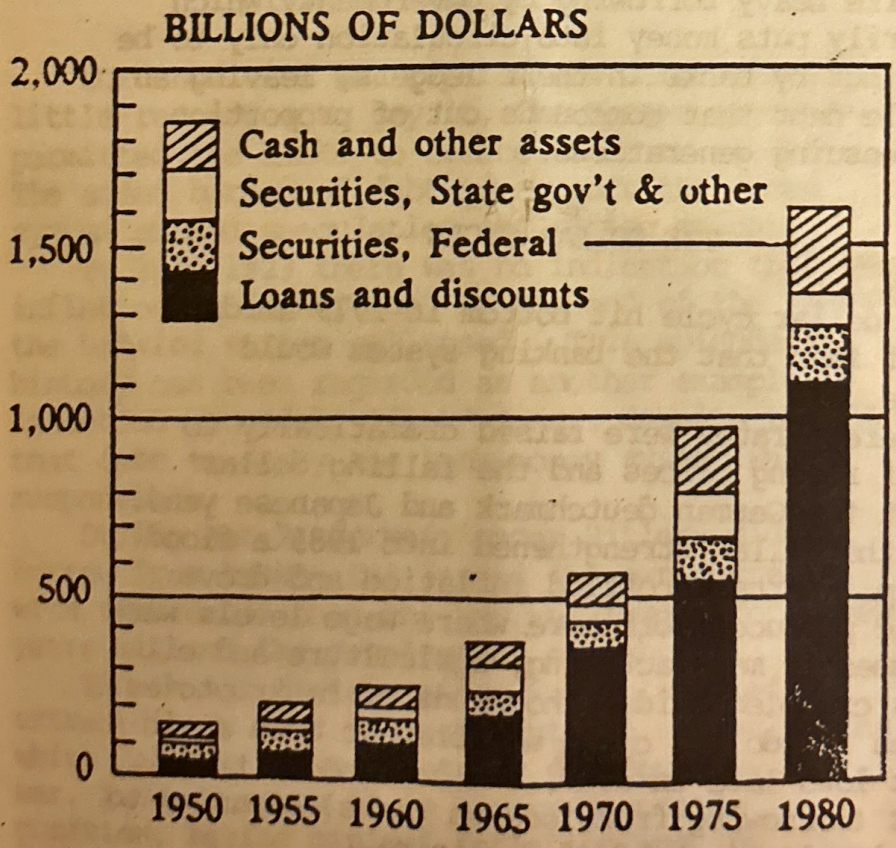
Bank assets have grown ten times in thirty years, according to the chart below (data supplied by the Federal Reserve Board).

The "Cash" item represents legal tender Federal Reserve Notes, supplied by the regional Federal Reserve Bank in exchange for excess reserves (see page 11 regarding excess reserves.)

"Other assets" represents investments by banks in real estate, equipment and other banks or Savings and Loans. Banks expanding across state lines have been acquiring banks and S&Ls at bargain prices. These assets are bought with excess reserves. Banks write checks for their own use.

Securities, such as Treasury bills, are also acquired with excess reserves as a reservoir of quick cash. Loans, the business of banks, are new deposits created from excess reserves.

Assets of banks are accumulated through the good years as a protection against insolvency in case of a rash of loan defaults. Banks must turn assets



into cash on the market to cover all defaulted loans. If defaults exceed assets, banks become insolvent. BankAmerica sold its two skyscrapers in San Fransico and Los Anegeles as well as branch banks overseas to cover defaults.

ACCUMULATION OF WEALTH

Banks in America have limitations not existing in Japan and Europe, where banks own industrial enterprises. German banks own approximately 15% of corporate equities; have members on management committees of more than 400 corporations; vote more than half the stock of the 100 top corporations. [Federal Reserve Bank of San Fransisco Weekly Letter, Dec. 18, 1987]

Japanese banks are tightly controlled by government, meaning they do as they decide through government fiat. The profits of major corporations are shared by banks. The bank-corporate "zaibatsu" connections are pretty much like the chart of Rothschild holdings.

The Rothschild family holds positions in Eagle Star Holdings, which holds an interest in Trizec, which holds an interest in Vineberg & Phillips, which is invested in Seagram, etc. (chart page 18)

Citicorp has been waging a strong campaign for repeal of the Glass-Steagall Act (1933) on the premise that banks should be able to engage in the securities business. Typically, the real aim seems to be much larger in scope—becoming universal banks after the image of those in West Germany.

The Holding Company Act of 1971 allows other business to own banks. Citicorp owns Citibank and other enterprises.

David Rockefeller, retired chairman of Chase Bank, was reported as selling realty holdings at Radio City, NY, to create an investment banking firm. Certain major money-center banks have "threatened" to quit the commercial banking business and go into investment banking.

***

Banks want others to believe that they alone can control money supply and inflation; although a better way is expunging money with taxes.

PRINCIPAL HOLDINGS OF ROTHSCHILD FAMILY

From the BULLETIN of the Committee to Restore the Constitution, Apr. 1986; P.O. Box 986, Ft. Collins, CO 8052. Research of Eustace Mullins, P. O. Box 1105, Staunton, VA 24401

Rothschild:
--Eagle Star Holdings PLC of London [Evelyn de Rothschild]
  --Trizec Corp.
    --Vineberg & Phillips
      --Seagram of Canada (Bronfman)
        --Seagram of USA
          --Dupont (27%) ←
            --Continental Oil Co. (CONOCO) –
  --Abitibi-Price (newsprint)
--Richman Brothers
  --US Olympia & York Co. (Real estate)
    --Rouse Co.
--Shell Transport & Trading Co.
  --Royal Dutch Shell
--DeBeers gold mining [ownership with Oppenheimer]
  --American-Anglo Corp.
    --Philip-Salomon (21%)
    --Englehard Minerals Corp. (29%)
--Belzberg(s)
  --Scovill Corp

Sir. James Goldsmith was one of six partners of Banque Rothschild of Paris, France;
attempted buyout of Goodyear Tire, 1987.
Samuel Montague & Co. [oldest merchant bank in Eng.] closely connected with Rothschild family. ?

FOREIGN EXCHANGE

Today's burdensome, unpayable debt is causing the dollar to lose value relative to currencies of trading nations having a much better balance sheet—Germany, Japan, Switzerland, even England!

The Germans run a tight ship, having more unemployment than the US, but less debt and an inflation rate of only 1.5 percent in 1987.

The U.S. has kept a lid on inflation by letting cheap foreign goods enter the markets; although, in the process, has run up a debt that is bringing down the dollar, making imports more expensive and threatening to blow up inflation. To meet this threat, U.S. banks are pushing up interest rates, which will throttle business activity, increase the cost of carrying inven-

tories and fear of borrowing, which threatens to reduce the money supply. It's Catch-22.

Although there is rationale in foreign exchange, a better way is the use of production to obtain trade credits rather than currencies.

AMERICA ON SALE AT DISCOUNT

In 1985 the dollar could buy 265 yen; on December 31, 1987, it bought only 121 yen.

Japanese profits from the sale of goods in U.S. markets have been held in the U.S., principally in the form of highly liquid Treasury securities.

The Wall Street projection is the yen's reaching par with the dollar. One hundred cents will buy 100 yen.

Real estate valued at $100,000 can now be bought by Japanese banks for only 121,000 yen as compared with 265,000 yen in 1965. By playing the dollar cycle, foreigners will buy America at a large discount.

The cheap dollar has slowed down their exports to the U.S., because U.S. buyers must put up more dollars for foreign currency with which to buy the goods. These losses are offset by the discounts on fixed assets foreigners may now buy.

The dollar cycle involves all currencies not alligned with the dollar. When the dollar reached its peak in 1985, U.S. buyers bought foreign assets at discount. The question one must ask is, "Who are those buyers?" The answer should be world bankers with plenty of money.

Foreign banks pick the time to take advantage of the dollar's decline to buy America. It also means their quitting investment in U.S. Treasury securities. Wall Street's fear of that day is based on the requirement that Federal Reserve Banks purchase the Treasury offerings.

When the Federal Reserve Banks own securities, the interest income is returned to the Treasury, after payment of expenses and other uses of money, including a reserve fund. The Fed should have been doing this all along, instead of permitting foreign banks to buy up America.

"RECYCLING OF PETRODOLLARS" A DECEPTION

When the oil cartel suddenly boosted the price of oil in 1973 and several times thereafter, banks thrived on the increased deposits of oil companies. They became flush with bookentry reserves---checkbook money to lend.

As crude oil was traded in US dollars, OPEC adjusted to dollar inflation with hefty increases in price from 1973 to 1979. The resulting increase in dollar deposits meant banks' having an equally hefty increase in reserves. Their new increased lending was phrased "Recycling of Petrodollars."

An aggressive campaign was conducted by banks to induce companies to expand their operations with borrowed money. The selling point of the campaign was that inflation was here to stay. It would make debts easier to pay with cheaper dollars. Many borrowers were destined to pay dearly for that miscalculation and over-sell.

Bank representatives attended international conferences of finance officers to sell the idea of increasing economic wealth through borrowing. Out of that came the great burdens of debt now held by Latin nations and the yearly political turmoil since the 1980s began.

BANK CAMPAIGN FOR LEVERAGE

Banks also employed their wisdom financing all through corporate America, putting to aggressive use their windfall of reserves from oil company revenues. The Shah of Iran used Chase Manhattan Bank as his depository.

Since bank economists persuaded almost everyone that inflation was institutionalized, all debt could be paid off with cheaper dollars in the years ahead, debtors followed the piper with extraordinary confidence.

While the ordinary business cycle recession could be tolerated, the recession of 1980-1981 was so deep worldwide and pervasive that revenues of those debtors were often insufficient to meet loan commitments. Needless to say, a massive restructuring of corporations took place. Unprofitable divisions were sold. Jobs were lost. The farm,

manufacturing and oil sectors of the economy were badly affected by the lack of revenues to pay banks.

That severe recession was begun in 1979, when the banks raised interest rates to unprecedented levels and US Treasury bills were yielding 15%. Such costs to borrowers were intolerable. Those who could not meet them were forced out of business or into selling properties at sacrifice prices to meet loan payments.

During deep recessions in the bank money system, money does not change hands as rapidly as when times are good. One dollar, moving from place to place in business transactions, can become an income for as many as six people; yet only the one dollar exists. This is called "Velocity of Money."

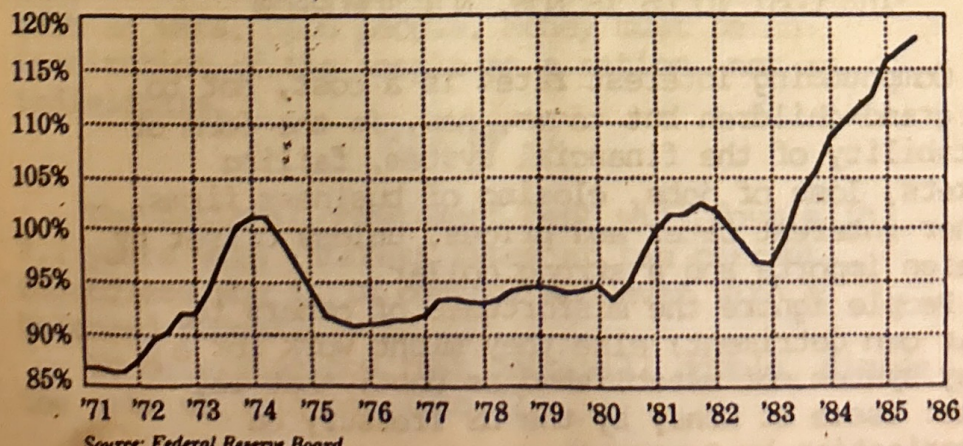
The same is true for investment velocity. When money is invested at a slower rate, the economy recedes.

When velocity slows down, quite a few people will not have the income previously coming to them. Economists estimate velocity by dividing the gross national product (GNP) by the money supply (M-1). A GNP of $3,300 billion and a M-1 of 550 gives a velocity of six. One dollar is doing the work of six in a thriving economy.

One can see that a growing GNP is necessary to prevent embarrassment of debtors in this economy. A shrinking GNP means disaster for many.

Corporate Debt Soars

As percentage of net worth



Source: Federal Reserve Board

FINDING NEW DEBTORS

As one sector of debtors is intimidated by failing markets and bankruptcies, banks search for other sectors.

The most recent sizable sector has been in home equity and the new kind of lending, the Home Equity Line of Credit. Banks have been waging an aggressive campaign with this product. The response has been excellent.

What this will do to the residential real estate market can only be surmised, because, as thousands, or millions, of these debtors are unable to service their loans in coming cycles of recession, properties will be thrown on the market to enable debtors to pay the banks.

"MAGIC OF COMPOUNDING"

Banks advertise that one's account can grow to millions of dollars in 20 or 30 years, indicating their conviction that inflation is here to stay. Using the rule of 72 on the next page, one can estimate how long it takes for an investment, or a debt, to double, because of compounding.

Compounding is detrimental, contrary to bank advertising, since it causes a steady rise of average interest rates and inflation that must be controlled by making money scarce and bankrupting unsuspecting debtors. Since 1980 the US has had the highest real rates of interest in its history.

THE COST TO US IS NOW, NOT TOMORROW

Compounding interest rates is a cost, not to our grand-children but to us, now, in the form of instability of the financial system, failing markets, loss of jobs, closing of business firms, higher interest rates and prices, unless offset by foreign imports and a strong dollar.

People ignore the misfortunes of others to their own detriment; else they might work for a money system not established as debt; that is, direct issue of money by the US Treasury on authorization by Congress.

United States Notes with full legal tender will restore this nation to its former prosperity.

A system of Economics has developed around the need to protect banks from loss of their deposit-creating powers and their control over governments.

Certainly, too much money raises prices; but money itself does not do so.

DEBT is the cause of higher interest rates and inflation. Banks hide this truth.

The economy is best served by low interest rates. During times of low rates progress was the fullest for the most people. Amenities developed at an unusual pace.

Periods of contraction occurring in a decade cause pronounced visible evidence of economic catastrophe. Periods of much longer duration of increasing interest rates and accumulating debt cause changes that occur over generations, making each generation unaware of the undesirable social changes and adjustments to growing debt.

The middle-class has been in a death struggle with a system controlled by debt and will lose, unless it escapes by forcing the establishment of a money system which does not exist as debt. Reshaping the world is a powerful group of money creators having no allegiance to nation.

We, the government, should not have to borrow money created by individuals with no special endowment. Money issued for profit forces events, such as wars, upon people. Money must be an institution of the people as a nation, not as individuals.

RULE OF 72

The national government debt will double in 7.2 years with interest rates at ten percent, regardless who is in control and even with a balanced budget.

To determine how fast debt will double, divide the rate of interest into 72.

DUPLICITY OF REPORTING TO GOLD AS REFORM

Returning to gold as the monetary base usually convinces economists of being a "cure," which does nothing to end bank creation of checkbook money and the inflation it brings.

A money system based on debt saps the earning power of the people with repeated cycles of boom and bust.

A "natural" business cycle is pure humbug. Business is expanded and contracted by doing the same with the nation's money supply by banks.

All debt in the country is a product of the bank-money apparatus. Debt exposes firms to bankruptcy when markets fail in the business cycle. Lenders gain access to the firms as concession to emergency loans.

Concentration of wealth is hidden by networks of corporations. Bilzberg and Olympia & York are frequently reported purchasing corporate assets. It is not mentioned that they are Rothschild subsidiaries. Another is Seagram of Canada, owner of Seagram USA, owner of 27 percent of DuPont, owner of Conoco (oil).

Because of the foreign trade policy of the administration in Washington, billions of dollars of new debt have been added each month, so that by the year 1995 external debt could be $1.5 trillion with interest of $150 billion annually. (F.Rohatyn)

Holders of government securities have first claim on our national resources. (R. Hoskins)

Loans of U.S. banks to Latin America were checkbook dollar deposits in domestic or foreign branches. Interest is paid annually in checkbook money. Now that these debtors are unable to service their debts, the banks have arranged a swap of debt for equities of nationally-owned corporations. Equities make banks partners in state socialism. Checkbook dollars were created out of nothing.

Wars have been fought to protect the interests of huge money-center banks. Domestically, the sheriff is called to dispossess bankrupt debtors.

Banks do not lend greenbacks, although the checkbook deposits they create can purchase them. This makes people think checkbook deposits are money in the finite sense.

WHEN BANKS AND THRIFTS LEND, THEY CREATE NEW CHECKBOOK MONEY BY ADDING FUNDS TO BORROWERS' CHECKING ACCOUNTS. SINCE COMMERCIAL BANKS CREATE NEARLY THREE-QUARTERS OF NEW CHECKBOOK MONEY, THEY PLAY A SPECIAL ROLE IN OUR FINANCIAL SYSTEM.
LOANS
PEOPLE WANT THEIR CASH WELL-PROTECTED. BANKS AND THRIFTS, WITH VAULTS, ALARMS AND DEPOSIT INSURANCE, OFFER GREATER SAFETY THAN KEEPING MONEY AT HOME.
COOKIE

GIVES CAPITALISM A BAD NAME

Bank-money and its complications give capitalism a bad name. America owes its past prosperity essentially to its constitution and capitalism, despite burdens imposed by a system that victimizes people through market failure, caused by compounding of debt to maintain the money supply.

FEAR OF BORROWING

A slow economy instills caution and fear into those who need money to carry on their business operations. Consumers, losing income and jobs, cut back on their use of credit cards and spending.

Deposits at banks dwindle. As loans mature, no new loans are made. Money supply shrinks. After a year of hard times, borrowing and money supply are sharply reduced. Banks reluctantly, gingerly lower rates to entice borrowing.

The economy cannot function without an adequate money supply. The compounding of interest alone demands an increasing money supply. A smaller money supply squeezes debtors everywhere.

Non-bank lending institutions reverse their aggressiveness and now reduce their lending.

Consumer spending, which uses such services, is curtailed.

Momentum of a booming marketplace is quickly reversed to the downside, affecting a large portion of the economy. Unemployment figures do not tell the whole story, as the majority of formerly unemployed will gladly accept reduced pay rather than no pay at all.

The bank-money system is vulnerable to hard times in that it cannot create deposits to satisfy the economy. Failing debtors grows into failing banks. Banks must pay from their assets all loans that are defaulted. When defaults exceed assets, banks are closed by regulators.

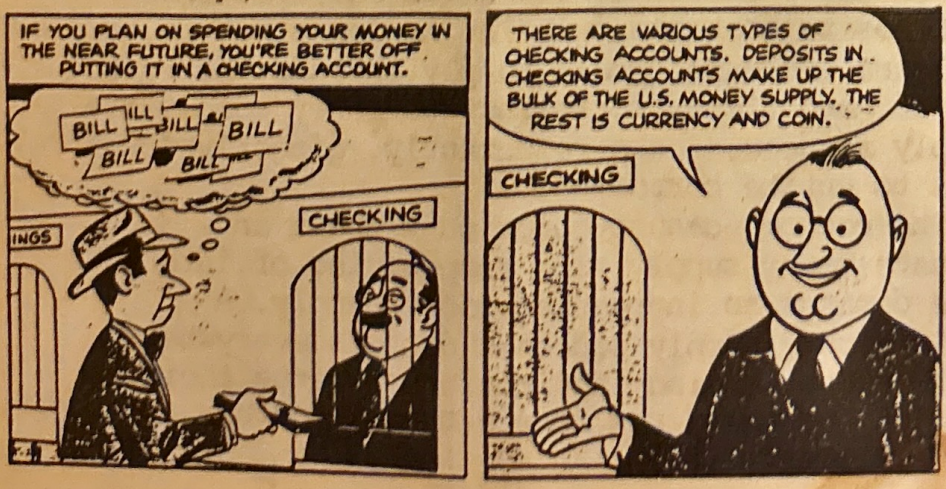
During the Great Depression, the faulty design of the bank-money system accounted for drying up of the money supply; although, banks have been harping ever since that the Smoot-Hawley Tariff Act caused the economic depression.

WHEN THE GREENBACK IS KING

Others say the "Fed" did not do its job by supplying reserves to banks. This is stupidity, since reserves are useless when people are reluctant to borrow money into circulation.

The Greenback remains as the only stable money. Velocity may slow, but the greenback is the solid rock of strength, saving the economy from utter dissolution. In hard times the greenback is King!

Unless people borrow, the government must do it. To save the banking system, then, government must borrow deposits, which they create. This


IF YOU PLAN ON SPENDING YOUR MONEY IN THE NEAR FUTURE, YOU'RE BETTER OFF PUTTING IT IN A CHECKING ACCOUNT.
BILL
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CHECKING
INGS
THERE ARE VARIOUS TYPES OF CHECKING ACCOUNTS. DEPOSITS IN CHECKING ACCOUNTS MAKE UP THE BULK OF THE U.S. MONEY SUPPLY. THE REST IS CURRENCY AND COIN.
CHECKING

poured money into the economy through various projects during the 1930s; yet, it was unable to turn the economy around.

War 2 was the next expedient. The government debt was only one billion dollars in 1938 and twenty-seven billion dollars in 1945. It has been compounding ever since because of the interest payments required each year.

DEBT CONSUMED CIVILIZATIONS

Although several factors contribute to the decline and fall of civilizations, the most important one is the accumulation of debt to maintain economic progress.

The most recent catastrophe was the banking collapse in Germany after the first world war. The victorious allies had imposed burdensome reparations on the nation, prompting excessive bank lending and unpayable debt. During the last half of 1923 inflation broke with a frenzy. The printing of money could not keep up with the speed of rising prices. By December, 1923, the banks had to give up. The country was broke.

When Germany issued the money in the second world war (1938-1945)—not the banks—the Treasury had no debt; nor was there any raging inflation. The defeat was military, not economic, except for the great damage done by aircraft to industries.

INFRASTRUCTURE NEGLECT

As debt piles up, interest payments become so great a part of expenses that they rob the economy of money to grow and function. Interest incomes are not put back into the economy as desired, but are often shifted and invested into foreign projects or interest-bearing securities floated to pay interest. A vicious circle is the result.

Productivity is impaired, leaving US markets exposed to cheaper foreign goods, loss of domesti

producers, jobs and an increasing foreign trade deficit, calling for further payments of interest.

A well-developed infrastructure is vital to successful capitalism. When interest payments dominate economic problems, infrastructure of cities suffers. Today, cities cannot maintain existing infrastructure, not alone develop it.

A major problem to industry in foreign countries is the poorly developed infrstructure.

CHECKS WILL STILL SERVE

In a Treasury dollar system, the solid Greenback would be represented by checkables that remain in circulation, because banks won't have the privilege of eradicating the numbers.

Checkables will be eradicated only when collected by the Treasury as taxes.

Debtors will then get a fair shake and be able to make plans without fear of the rug being pulled out from under them by monetary policy.

There must always be more money in circulation than the interest required on all debt, else the economy is on a perpetual brink. An integral part of bank power strategy, crises are occasions for squeezing concessions out of debtors, including government. Banks planned twenty-seven years—from the rejection by President Jackson of the charter for the Second Bank of the United States, to the third year of the Civil War—to push through the National Banking Act, forerunner of today's system.

The public doesn't want greenbacks "redeemable in gold," but wants assurance that the system won't develop a crisis that leads to market failure and bankruptcy—loss of property, which took many years of sacrifice to build.

When the U.S Treasury creates the dollar and lends it to banks, banks will return to being banks. Those not wanting that may become investment bankers, if they haven't been stripped of their ill-gotten wealth.